Cape Economic Performance and Prospect Bulletin – November 2024

Highlights

- *Price pressures expected to remain heightened and remain above pandemic levels as tightening efforts continue to crystalise.*
- *Nigeria's Q3 2024 output growth expected to remain positive and marginally higher than Q2 2024.*
- ***Forecast shows that inflationary pressure in Nigeria heightened marginally in October 2024, with headline inflation rising to 32.80 percent**.*

Global Economic Update

Global growth although tepid, remains resilient, particularly as the impact of monetary policy easing gains traction in the first half of 2025. It is however important to note that soft landings are hard to track as the early signs of a deceleration may look unfortunately similar to a slide into recession.

The moderation in inflation has provided some economic respite, easing cost pressures on consumers and businesses and supporting economic activity. Furthermore, central banks, particularly in advanced economies and select emerging markets, have begun to adopt more accommodative monetary policies. By reducing interest rates and boosting liquidity, these measures have improved financial conditions, lowering borrowing costs and expanding policy headroom. However, while some central banks, primarily in advanced economies, ease policy, others—such as Nigeria—maintain a tightening stance to manage domestic inflation risks, essentially, this has created a diverse scope of monetary policy

The recent rise in global trade activity highlights a resurgence in demand for goods and services across major economies, lending further support to global growth. Nevertheless, a return to pre-pandemic growth levels remains challenging due to ongoing headwinds. Elevated debt burdens in both advanced and emerging economies, constrained fiscal policy space limiting growth-stimulating public spending, and interest rates that remain above pre-pandemic levels are all factors weighing on consumer spending and investment.

In addition, geopolitical tensions are increasingly intensifying uncertainties, creating a volatile global economic landscape that disrupts economic activities and weakens business confidence. As a result, global output growth is projected to reach 3.2 percent in 2024, a slight increase from 3.1 percent in 2023.

In advanced economies, recent U.S. data has revealed a mixed outlook. Retail sales and industrial production expanded through the third quarter, but labour market indicators are sending nuanced signals, with job gains underperforming expectations. While labour markets are not yet in decline, there are signs of gradual easing. Despite this, U.S. output remains above trend for Q3 and Q4 2024. Additionally, the re-emergence of President Trump may boost economic activity through his proposed pro-business tax policies and potentially lower interest rate stance. However, high interest rates and significant consumer debt levels may constrain consumer spending over time, despite its current role in sustaining economic growth.

In Europe, the UK recorded the fastest growth among G7 nations in the first half of 2024, a momentum that continued into the second half of 2024. The Eurozone, however, presented a more complex picture, with business surveys indicating expansion but manufacturing output lagging due to sectoral disparities across the region.

Emerging markets are set to outpace advanced economies in 2024. China's growth is expected to remain positive, driven by robust investment despite challenges in the real estate sector and weaker household spending. This outlook is further supported by substantial fiscal stimulus targeting China's real estate and construction sectors. Other emerging economies—such as India, Indonesia, Vietnam, and the Philippines—are anticipated to be among the fastest-growing, powered by strong domestic demand and rising foreign direct investment. In contrast, major Latin American economies like Mexico and Brazil may experience slower growth, as they face sluggish domestic and international demand alongside fiscal consolidation efforts and tight monetary policies aimed at controlling inflation.

Major constraints to global growth remain focused on rising geopolitical tensions and restrictive monetary policies, which continue to dampen economic momentum across both advanced and emerging markets.

Global inflationary trends remain mixed, as households face persistent financial strain despite widespread adoption of hawkish monetary policies. Geopolitical tensions are adding to inflationary pressures, especially through higher commodity prices, notably oil and grains. Climate change risks, particularly its disruptive effects on global logistics and supply chains, further compound inflationary challenges, adding an additional layer of complexity to effectively achieving price stability.

The impact of policy rate adjustments on inflation varies significantly between advanced and emerging economies. Notably, there is a potential risk that the recent disinflation in some advanced economies could reverse. As mentioned in previous analyses, the U.S. Federal Reserve began easing its monetary policy in September 2024, following earlier moves by the Bank of England and the European Central Bank (ECB), even amid ongoing labour market pressures.

The Federal Reserve reduced its target rate by an unexpected 50 basis points (bps), bringing it down to a range of 4.75–5.00 percent, and signalled potential further cuts soon. Nonetheless, financial markets continue to anticipate a more dovish path for U.S. rate adjustments. The Fed is projected to lower its federal funds target range by 25 basis points to 4.5–4.75 percent at the November 2024 meeting, with markets monitoring closely for any guidance on future policy changes, particularly in light of Trump's re-election and potential inflationary pressures from his administration. During the September meeting, the Fed's median forecast suggested an additional quarter-point cut in December, with a full percentage point reduction anticipated through 2025.

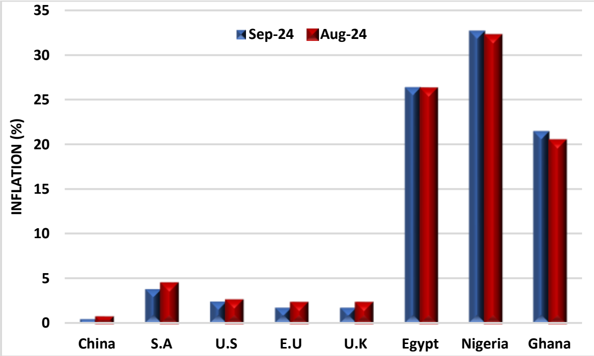
In Europe, both the ECB and the Swiss National Bank (SNB) lowered their policy rates by 25 bps, setting them at 3.50 percent and 1.00 percent, respectively. In October 2024, the ECB reduced its main rates—the deposit facility, main refinancing operations, and marginal lending facility rates—to 3.25 percent, 3.40 percent, and 3.65 percent, respectively, after similar reductions in June and September. This action was based on new inflation projections indicating that disinflation is progressing effectively; for the first time in over three years, Eurozone inflation fell below the ECB's 2 percent target in September. Although inflation may increase slightly in the near term, it is projected to realign with the 2 percent target by 2025.

The Bank of England (BoE) held its base rate at 5.00 percent but subsequently reduced it by 25 bps to 4.75 percent in November 2024, marking the second rate cut since the BoE resumed easing in August. This move aligns with indicators of moderating inflation, as UK inflation reached a three-year low of 1.7 percent in September. However, the BoE anticipates a 0.5 percent increase in inflation due to the Labour Party's recent expansionary budget.

Emerging markets, however, face different monetary policy pressures, as maintaining capital inflows is crucial. While inflation is moderating across most of these economies, the urgency to loosen monetary policy remains subdued. The Central Bank of Nigeria continued its tightening policy, consistent with earlier forecasts, while the Bank of Ghana adopted an easing stance supported by favourable real interest rates.

This divergence in global monetary policy reflects varied inflationary pressures and economic landscapes, underscoring the nuanced relationship between domestic inflation trends, capital movement, and broader geopolitical and economic headwinds.

Figure 1: Year-on-Year Inflation in Selected Economies (August 2024 – September 2024) in percent



Source: Various National Statistics Offices

We anticipate that many central banks, particularly in advanced economies, will continue shifting toward a more accommodative monetary stance, while emerging markets are expected to maintain their tighter policy positions for the remainder of 2024. These divergent approaches highlight the delicate balance needed to manage risks to output growth and financial stability. By 2025, we expect a greater loosening of monetary policies.

Declining inflation and the Federal Reserve's rate cuts beginning in September have spurred a strong rally in bond markets, though October saw heightened volatility in both stock and bond markets. Despite a brief mid-month rally in global equities, U.S. stock markets slowed overall. The S&P 500® dropped 0.99 percent in October, bringing its year-to-date (YTD) return to 19.62 percent. The Dow Jones Industrial Average® fell 1.34 percent for the month, with a YTD gain of 10.81 percent. Similarly, the S&P MidCap 400® declined by 0.77 percent in October, resulting in a YTD return of 11.38 percent, while the S&P SmallCap 600® dropped 2.71 percent for the month, with a 4.96 percent gain YTD.

Though U.S. stock market momentum softened, the most pronounced weakness was outside North America, partially due to the strong dollar's impact on returns in common currency terms. Japan was the only major region with gains in local currency, while stimulus momentum waned in China. In the fixed-income space, government bond yields surged across the U.S. and Europe. The 10-year UK gilt yield reached a 12-month peak at 4.5 percent following a budget announcement from the new government outlining net fiscal loosening.

In the commodities market, gold prices surged to approximately US$2,744 per ounce, largely driven by the Federal Reserve's rate cuts, which continue to bolster gold valuations. Following a period of summer stabilization, gold prices are expected to maintain an upward trend supported by a global shift toward accommodative monetary policy. Meanwhile, the crude oil market experienced volatility in October, ending the month higher due to a mix of economic and geopolitical factors, with West Texas Intermediate (WTI) settling at US$70.61 per barrel and Brent at US$74.23 per barrel. Upside risks to energy and commodities remain from increased demand and geopolitical tensions, while downside risks are primarily tied to pressures within the financial system.

Global Economic Outlook

The global economy has shown significant resilience in the first three quarters of 2024, navigating substantial headwinds such as geopolitical conflicts and subdued export demand. However, downside risks continue, particularly from heightened geopolitical tensions and weakening global trade flows. Sustained private consumption remains a growth tailwind, while moderating inflation and expected rate reductions are likely to support a stable pace of expansion in late 2024 and into 2025.

In advanced economies, the U.S. continues to exhibit economic strength, a trend that is projected to extend through Q4 2024. Nevertheless, inflationary pressures in the services sector, rising consumer debt, a softening labour market, and political uncertainties could constrain consumer spending and overall economic momentum. The Eurozone's outlook is modestly optimistic, with easing inflation and stronger export activity aiding growth, though the pace of recovery remains modest relative to other major economies.

Emerging markets, notably China and India, continue to demonstrate resilience with robust private consumption and export activity. However, China faces considerable headwinds from a declining real estate sector and slowing productivity growth, potentially impacting its recovery trajectory.

Financial markets are expected to experience sustained volatility, as bond markets may have overestimated the likelihood of aggressive policy easing. Current market projections suggest a rapid pace of rate cuts, which may be overly optimistic without a significant economic downturn. Given these dynamics, we advise caution toward small-cap investments, favouring diversified regional exposures instead. Markets such as the UK and continental Europe present relatively attractive valuations and solid economic momentum, providing a hedge against risks in the U.S. market.

As inflationary concerns ease, market sentiment has shifted back to a "bad news is bad news" paradigm, where weak economic data can depress equities and support bonds. Re-establishing a negative correlation between equities and bonds could enhance portfolio diversification, enabling fixed-income assets to resume their role as a buffer against equity volatility.

In Q4 2024, we also expect a shift in portfolio flows toward emerging markets, spurred by sustained monetary easing in advanced economies. Central banks face increasingly complex decisions as they navigate trade-offs between inflation control, employment, and economic stability. Premature easing could compromise inflation progress, while further tightening risks financial instability or even recession.

The commodities market is likely to experience further shifts. Oil prices are projected to trend downward as OPEC+ reverses previous production cuts gradually. Natural gas and coal prices are anticipated to fall amid ample supplies and high inventory levels, while industrial metal prices may increase, driven by China's fiscal and monetary easing efforts. Gold prices could decline, given that expected rate cuts have largely been factored in, and agricultural commodities are likely to see price reductions due to an improved supply outlook.

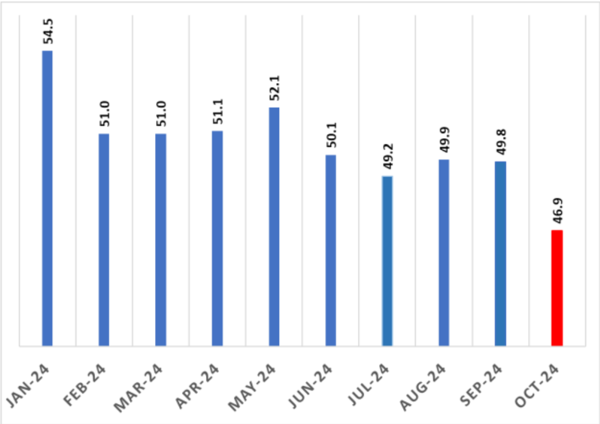
Overall, the global economy is managing a delicate balance of geopolitical tensions, monetary policy constraints, and commodity market fluctuations. Sustaining growth and stability will require central banks and policymakers to make targeted interventions that support the fragile recovery and reinforce macroeconomic stability over the medium term.

Nigeria's Output Growth

The last quarter of 2024 kicked-off on a more challenging note, as private sector output further deteriorated at a rate faster than anticipated. Specifically, the Stanbic IBTC headline purchasing managers' index (PMI) for October 2024 declined to 46.9 points, down from the 49.8 points printed in September 2024, marking a 19-month low. Output declined in major sectors monitored sectors, with agriculture being the only exception, due to the seasonal harvest period. This decline reflects a worsening business environment in October 2024, driven largely by intensifying inflationary pressures from currency depreciation and rising energy costs, which led to a significant reduction in new orders and overall business activity. In the overall analysis, input costs surged at one of the sharpest rates on record, prompting a corresponding increase in selling prices. Also, successive rate hikes by the monetary authority are taking a toll on the private sector business activities, as they restrict access to affordable funding.

The worsening business environment in the private sector is likely to further weaken the performance of Nigeria's non-oil sector, as currency depreciation and rising input costs place substantial pressure on businesses. These factors erode profit margins, drive up operational expenses, and limit the sector's ability to expand output. However, potential improvements in crude oil production could partially offset these negative effects by boosting overall economic activity and increasing foreign exchange inflows. While increased oil revenues may provide some relief to government finances, the non-oil sector may continue to face significant challenges unless inflationary pressures and currency volatility are addressed

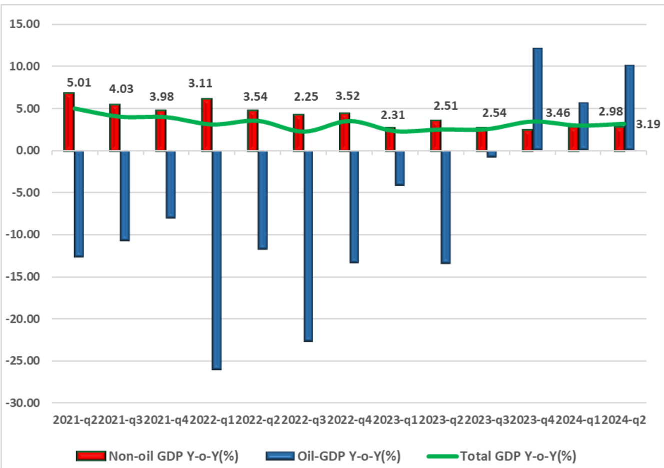
Figure 2: Trend of Nigeria's PMI (Jan - Sept 2024)



Source: Stanbic-IBTC

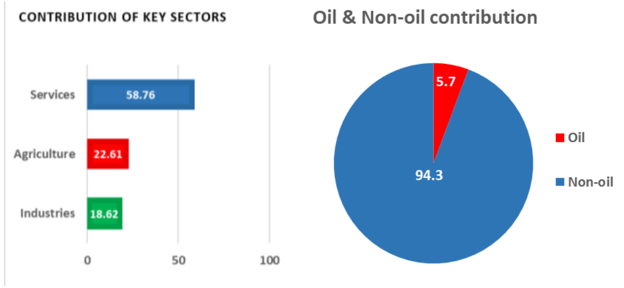
The sharp decline in business output in October 2024 signals ongoing challenges in the Nigerian private sector, as firms continue to navigate a sluggish business environment (Figure 2). While we expect output performance to remain subdued, it is likely to stay positive and demonstrate resilience despite the numerous obstacles faced by businesses.

Figure 3: Real GDP Growth Rate in Nigeria (Q22021 – Q22024) in Per cent



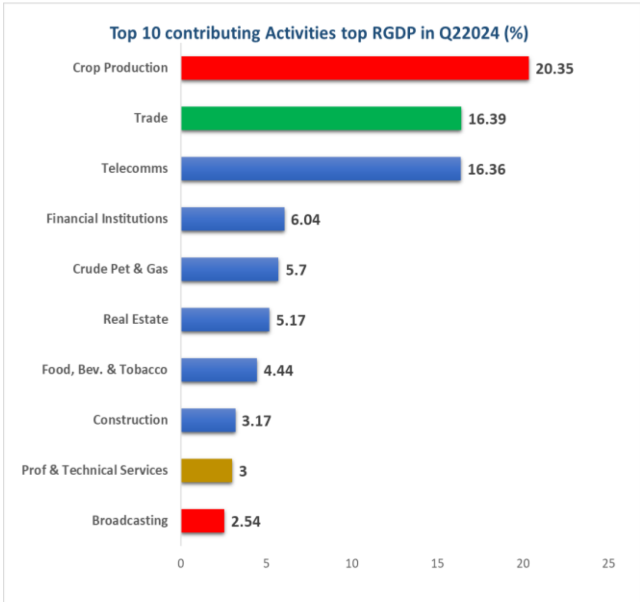
Source: National Bureau of Statistics (NBS)

Figure 4: Sectoral Contribution to GDP



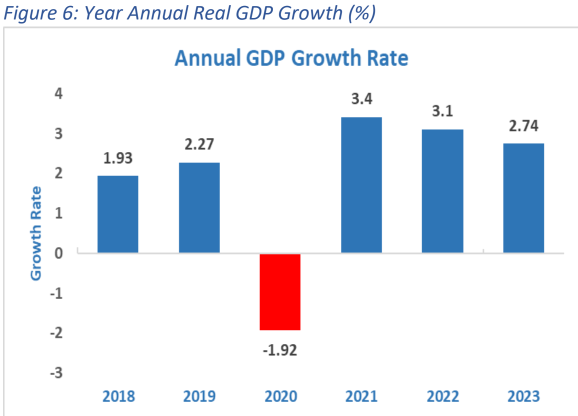
Source: NBS

Figure 5: Top 10 Economic activities that drove Nigeria's RGDP (Q22024) in Per cent



Source: NBS

Figure 6: Year Annual Real GDP Growth (%)



Source: NBS

Output Growth Outlook

Nigeria's output growth is showing resilience amid notable economic headwinds. Key challenges—such as high energy costs, exchange rate instability driven by foreign exchange shortages, security issues, infrastructure deficits, and rising production costs—are substantial constraints on achieving robust, sustained growth. Consequently, while growth is expected to remain positive through the third and fourth quarters of 2024, these macroeconomic and structural pressures are likely to moderate the overall outlook.

The anticipated recovery in the latter half of 2024 may also encounter additional pressure due to tightened monetary policy, including interest rate increases, continued exchange rate volatility, and heightened economic uncertainty. Nonetheless, this projected improvement is supported by seasonal growth in agriculture and advancements in the industrial sector, notably with the start of operations at the Dangote refinery. These factors are expected to provide a moderate uplift to economic activity, even as persistent challenges limit the available policy headroom.

Price Update

After two successive declines, Nigeria's headline inflation rate reverted back to its upward trajectory, rising to 32.70 percent in September 2024, up from 32.15 percent recorded in August 2024. The increase indicates that headline inflation accelerated by 0.55 percentage points above the preceding month. This is substantially on account of increase in pump price of petrol in the early part of September 2024, coupled with sustained exchange rate depreciation during the period

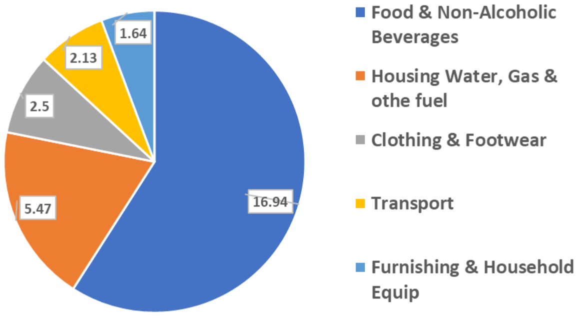
On a year-on-year basis, the Headline inflation rate was 5.98 percentage points higher compared to the 26.72 percent recorded in September 2023. The significant year-on-year increase reflects the persisting underlying macroeconomic headwinds consisting of higher cost of inputs, exchange rate depreciation, insecurity, among others. Items contributing to headline inflation in Nigeria year-on-year are indicated in figure 7, these include Food & Non-Alcoholic Beverages (16.94%) Housing, Water, Electricity, Gas & Other Fuel (5.47%), Clothing & Footwear (2.50%), Transport (2.13%).

On a month-on-month basis, the headline inflation rate in September 2024 stood at 2.52 percent, which was higher than the 2.22 percent recorded in August 2024 by 0.30 percentage points (See figure 9).

Food inflation rose to 37.77 percent in September 2024 compared to 37.52 percent recorded August 2024. On a year-on-year basis, it increased by 7.13 percentage points compared to the 30.62 percent recorded in September 2023. This surge in food prices was primarily driven by significant increases in the costs of essential foodstuffs, signalling persistent inflationary pressures in the food sector. On a month-on-month basis, food inflation in September 2024 stood at 2.64 percent, relative to 2.37 percent recorded in August 2024, indicating an increase of 0.27 percentage points.

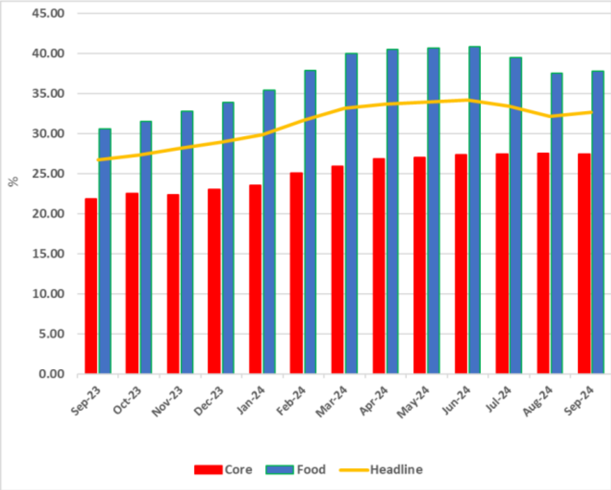
Core inflation however reduced to 27.43 percent in September from the 27.58 percent posted in August 2024. Nevertheless, on a year-on-year basis, core inflation rose by 5.59 percentage points relative to the 21.84 percent recorded in September 2023. On a month-on-month basis, the Core Inflation rate was 2.10 percent in September 2024. The highest increases were recorded in prices of Rents, Bus Journey intercity, Taxi Journey per drop, Meal at a local Restaurant, Laboratory service, among others.

Figure 7: Drivers of Headline Inflation Sept 2024 (Y-on-Y)



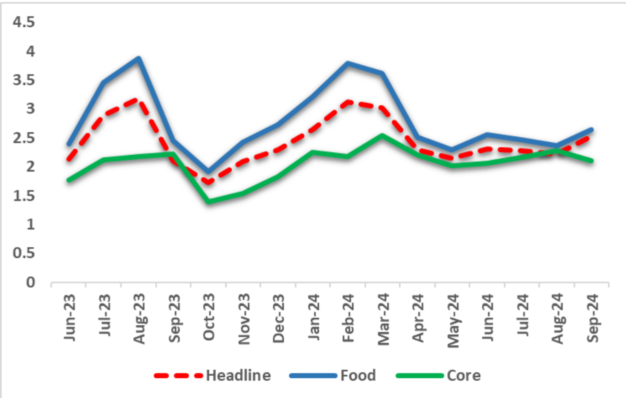
Source: NBS

Figure 8: Year-on-Year Headline, Food and Core Inflation (Sept 2023 – Sept 2024) in per cent



Source: NBS

Figure 9: Month-on-Month Inflation Rates (June 2023 – Sept 2024) in percent



Source: NBS

Price Outlook

Inflation is expected to heighten in October 2024. Our forecast showed that inflationary pressure would heighten as headline food and core inflation are expected to rise to 32.80 39.77 and 27.60 percent respectively.

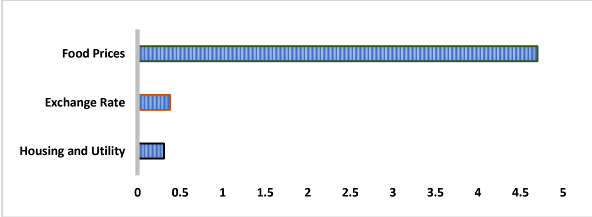
Table 1: Inflation forecast for October 2024 in Per Cent

Headline	Food	Core
32.80	39.77	27.60

Source: CAPE Economic Research and Consulting, 2024

The principal drivers shaping the forecast for headline inflation persist in food prices, the exchange rate, housing, and utility costs, contributing 4.70 percent, 0.38 percent, and 0.31 percent, respectively.

Figure 10: Driver of Predicted Inflation



Source: CAPE Economic Research and Consulting, 2024

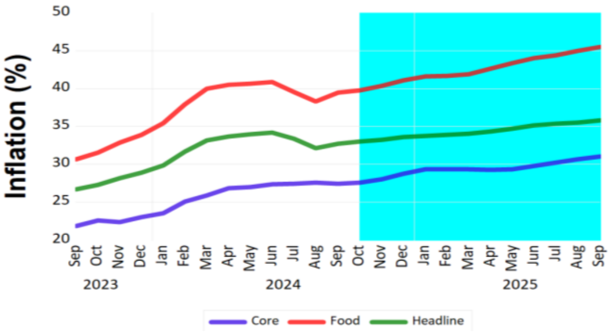
Our analysis highlights the considerable impact of food prices, exchange rate movements, and housing and utility costs on headline inflation. The recent energy price hike and exchange rate adjustments following deregulation continue to influence inflationary trends, with these pressures expected to persist over time.

Core inflation remains primarily driven by transportation, education, clothing, housing, utilities, and healthcare costs. Rising risks to inflation are rooted in the widening fiscal deficit, the removal of fuel subsidies, and ongoing exchange rate pressures, all of which have significant pass-through effects on prices.

As noted in our previous report, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria maintained a tightening stance at its September 2024 meeting, raising the policy rate by a marginal 50 basis points to 27.25 percent. This decision aims to uphold price stability while also retaining competitiveness in the foreign portfolio investment (FPI) market. To foster stability in the foreign exchange market, coordinated fiscal actions are essential. These should include policies that reinforce the Central Bank's efforts by encouraging foreign direct investment (FDI) and supporting export growth, particularly in the oil sector initially, followed by other strategic sectors.

Looking ahead, we expect the MPC to uphold its tightening stance at its November 2024 meeting—the final meeting for the year—either by holding the policy rate at 27.25 percent or considering a further marginal increase to maintain policy headroom against inflationary headwinds.

Figure 11: 12-Month Inflation Projection



Source: CAPE Economic Research and Consulting, 2024

Our revised 12-month inflation outlook suggests an upward trend of inflation for the rest of 2024 going into 2025, contingent upon prevailing conditions. Tailwinds to this projection include volatility in the exchange rate, security concerns, and policy uncertainties.

Fiscal Operations Update

The Federation Accounts Allocation Committee (FAAC) injected the sum of ₦1.298.87 trillion into the economy through its monthly allocations to the three tiers of government in October 2024. The amount represents an increase of 7.89 percent compared to the ₦1.203 trillion distributed in September 2024. The amount distributed represents about 57.48 percent of total revenue (₦2.258 trillion) collected, which was higher than revenue collected in the previous month. The increase was attributed to improved receipts from Oil and Gas Royalty, Excise Duty, EMTL, and CET Levies, VAT and Import Duty.

The increase in fiscal injections may further exacerbates the already high inflationary pressure.

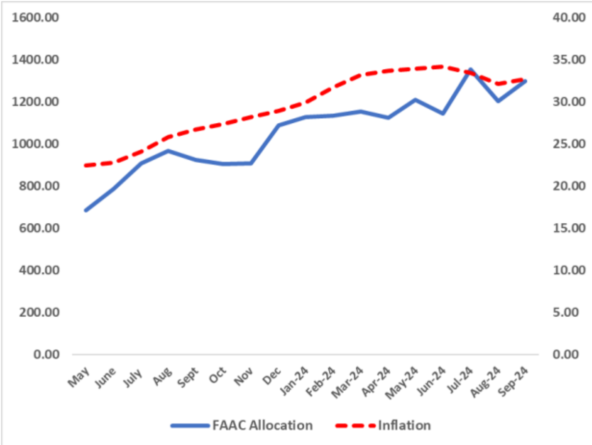
Table 2: Highlight of Oct. 2024 FAAC Distr (N'billion)

	October	September	% Change
Fed.	*424.87*	*374.93*	*13.3*
State	*453.72*	*422.86*	*7.3*
LG	*329.86*	*306.53*	*7.6*
13%	*90.42*	*99.47*	*-9.1*
Total	**1,298.87**	**1,203.79**	*7.9*

Source: FAAC, October 2024

Further breakdown of allocations as indicated in Table 3 showed that Federal Government received ₦424.87 billion; States, ₦453.72 billion; Local Government, ₦329.86 billion. Thirteen per cent derivation fund distributed among beneficiary states amounted to ₦90.42 billion. In a high-inflation environment like Nigeria, an increase in fiscal injections is likely to exacerbate inflationary pressures. Consequently, the rise in FAAC allocations is expected to intensify these pressures and potentially contributing to exchange rate pressure.

Figure 12: Trend of FAAC Distribution and Inflation Rate in Nigeria



Source: FAAC

Conclusion

In summary, the global growth forecast for 2024 remains cautiously positive but is constrained by several notable challenges. Emerging markets, in particular, are encountering strong headwinds, intensified by global uncertainties and weaker-than-expected growth in China. While central banks' initial aggressive monetary policies are gradually easing inflationary pressures in some regions, this achievement has come with trade-offs, including slower economic activity and increased risks to financial stability. Nonetheless, Nigeria's 2024 economic outlook remains resilient, reflecting the nation's capacity to adapt to and effectively manage prevailing economic conditions despite limited policy headroom.

Country in Focus – Republic of Benin

Figure 13: Economic Parameters for Republic of Benin

Source: CAPE Economic Research and Consulting, 2024